

# Community *Liaison*

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## Reality, Risk and Rural Development

*By Terry Lawhead, Washington State Department of Community, Trade & Economic Development (CTED)*

The general unevenness of economic growth in Washington State doesn't make headline news – the booming Puget Sound area and freeway corridors seem to function in an entirely different economy than the businesses on scenic roadways in remote rural counties. Few realize that Washington ranks third worst in the country in its disparity between the economic prosperity of urban and rural communities. So, when a success takes root in a small town, it is cause for celebration, and people in Ione, a small community in rural Pend Oreille County in northeastern Washington, are mighty pleased they can shop at the new Food Court.

Good management, strategic persistence and a successful mix of financial cooperation and acknowledged mutual interests enabled an Ione grocery store owner to open a new, larger store last fall and to better meet community needs.

A diverse group of private and public lenders and government agencies agreed to step out of their respective boxes and revisit perceived financing constraints. The process vividly illustrates how the thrift industry can, with patience and commitment, expand beyond traditional housing loans and move into rural and small business lending.



*Keeping people happy and keeping the commerce local. New Food Court in Ione, WA is meeting the needs.*

And all of the players experienced that effective partnerships result in no one party having to take all the risk.

Almost a decade ago, David Rochlin bought the existing grocery store in Ione, WA, where he had been working, and envisioned turning it into a regional grocery. Rochlin employed ten full-time staff and ran a profitable business, making his operation a notable asset to the local economy. The 500 residents of the small, remote community supported the store, as did a few thousand others in the surrounding area. Space constraints

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limited his ability to meet the demand, however, and he watched potential customers trickle north to Metaline Falls, west to Colville and south to Spokane.

He realized he had to act fast to protect his customer base and grow his business, so he purchased land to build a new store and began seeking financial help. He had a good working relationship with his wholesaler, URM Stores, and, together, they drafted a plan for approaching lenders.

Lending in rural areas like Ione is difficult for banks and thrifts to consider because of low incomes and dwindling jobs. Low market value appraisals for rural commercial buildings also make qualifying for financing difficult, a problem that would quickly surface and almost kill the project. On his initial approach, the financial institutions turned down Rochlin, noting the obstacles to financing new construction and the need for more cash equity in the deal.

Two years later, in 1994, Rochlin had \$100,000 and plans for a 11,000 square foot store, twice the size of his current business. This time, Sterling Savings Bank, a state chartered thrift headquartered in Spokane, WA, showed greater interest. Loan officers were still concerned about cash flow capabilities, however, and encouraged him to pay off the remaining debt on his old store and apply for a conventional loan.

Rochlin began working with Dave Wingate, a community development finance specialist with the state office of Community Trade and Economic Development (CTED). Wingate, also a local resident, was familiar with the area and the challenges of rural economic development due to high unemployment in resource-dependent communities. But he knew Rochlin was a good businessman providing an important service to the community.

When financing sources for the proposed \$1 million project fell short, (\$533,000 from Sterling and a \$373,000 U.S. Small Business Administration (SBA) 504 loan), Wingate and Rochlin turned to the Tri-County Economic Development District (TEDD) and its rural business development loan fund. TEDD approved a \$120,000 loan to fill the gap. TEDD's loan fund, capitalized through the USDA's Intermediary Relending Program, allowed TEDD to subordinate its loan to the senior lenders. But then, when success seemed within reach, the appraisal came through and the deal fell apart.

### Community *Liaison*

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### **“Out with the Old . . .**

The difference between the cost of construction, \$1,000,000, and appraised fair market value at completion, \$400,000, was significant, due to the limited marketability of the site in the event of foreclosure. The appraiser based the value of the business on 20% of gross sales because there were so few comparables for the value of rural commercial real estate.

Over the next year, Rochlin paid off the note on the old building, purchased equipment vital to store operations, set aside more cash and went back to call on banks. Ultimately, Sterling Savings approved a smaller loan (\$433,000), ensuring its exposure would be covered by the real estate. Rochlin turned to TEDD for a loan on equipment (\$150,000), to URM for a loan on inventory (\$125,000), and to the SBA and Northwest Business Development Association (NWBDA), for additional construction dollars (\$313,000). The NWBDA, a certified development company, is a licensed U.S. Small Business Administration (SBA) 504 lender which provides long term fixed asset financing, on terms not generally available through conventional sources. Rochlin credits Wingate for brokering the final \$1,021,000 deal.

Wingate credits everyone, in particular the process. “It was clear to me that all the lending partners wanted to make it work. The deal no longer fit in anybody’s box. Essentially, the package

became doable when, across the board, nobody sitting at the table got what they wanted. It says a lot about the determination of the lending partners that we moved forward.”

After so many years of struggling, Rochlin finally watched the deal fall into place. “Other players had tried their best at putting together the individual pieces of the financing structure,” he said. “But mixing a variety of public and private lending programs is complicated and a deal like this won’t work piecemeal. When Wingate finally called everybody together to hammer it out, the strength of the overall package convinced them they wanted to make it work.”

Wingate emphasized the importance of bringing all the lending partners together in Ione, basically bringing the city folks to the country. Sterling does not have a branch in the tri-county area from which

the Food Court draws most of its customers and Pend Oreille County is outside of Sterling’s assessment area. NWDA and the SBA are both located in Spokane. Only TEDD was actively involved in business lending in the area. Wingate brought together Forrest Miller, Loan Manager at TEDD; Mike Estess, Loan Officer, and Gary Whelpley, Executive Director, of NWBDA; Geoff Asan of Sterling; Gil Acevedo of the Spokane SBA District Office; and Mike Winger of URM to meet on-site and decide how to segregate and share collateral to spread the risk among the lending partners.



**. . . in with the New”**

Estess of NWBDA said that the shortfall in the appraisal was clearly the potential deal killer, but it set the stage for the unique collaboration which followed. "Together, we decided to take a calculated risk and share the burden," he said.

"Gil Acevado, the SBA lending officer, should be credited with coming up with the final structure that all the lending partners agreed to," said Wingate. "And to David's [Rochlin] credit, he got URM, his inventory supplier, to stay with him and then come in as a key element to the final financing package."

"It's also no secret to any of the lending partners that success was due to the staying power of Sterling throughout the process," said Wingate. "David [Rochlin] had worked smart and hard and ran a great business, but banks need to meet regulatory requirements no matter how vital a project may look on paper. Sterling had valid concerns about the resale value of a building in this part of the world."

To mitigate Sterling's concerns, the collateral was divided, with Sterling and SBA sharing the real estate, both the old and new buildings. TEDD took a first on the weaker collateral – the equipment and fixtures – and URM provided a seven year permanent working capital loan secured by inventory.

Sterling also looked at the perception of declining economic conditions in the Ione area, but statistics from the U.S. Census, the Post Office and historical data from URM

revealed a small but solid foundation for growth. "Dave [Rochlin] had made the grocery business work in a tiny, cramped old building," said Geoff Asan, AVP/Business Banking Officer with Sterling. "His consistently good historical cash flow and profitability spoke well of his ability to deliver on his proposal, as did his excellent track record and relationship with his grocery supplier. The bank was willing to rely on URM's sales projections for the new operation."

Rochlin opened the new store last September and expects to hire at least five new full time employees over the next two years. The store can be found by taking Highway 2 north out of Spokane and following Highway 211 along the beautiful Pend Oreille River. Be sure to stop by when you're in the area.

The financing partners in the store are scattered throughout the Northwest, linked by an invisible – but sturdy – thread of mutual interest in rural economic and community growth. In 1999, TEDD presented a Partner of the Year award to Sterling Savings Bank in recognition of its pivotal contribution to assisting rural communities in northeastern Washington ■

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*This article was prepared with assistance from all the individuals mention above.*

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# Madison Square Federal Savings Bank's Response to Local Competition

There is no doubt that small thrifts located in busy urban communities face serious competition. Those in the home mortgage business have seen the steady transfer of their market share over the past several years to mortgage companies, mortgage brokers, large commercial banks and Internet lenders.

The Baltimore, Maryland market is extremely competitive. As of June 30, 1999, 35 insured financial institutions operated 145 branch offices just in the City of Baltimore. There are also a large number of mortgage companies, loan production offices and credit unions that compete for local home mortgage business. Many small Baltimore area institutions have a difficult time developing and marketing mortgage products that appeal to low and moderate income families, and are competitive, profitable products for the institutions.

Madison Square Federal Savings Bank (Madison Square) is a small, mutual thrift with assets of \$113 million that does business out of three branch offices in Baltimore City, Baltimore County and nearby Harford County. The Board of Directors and management of Madison Square feel strongly that the goal of a mutual thrift must be to identify and serve the credit needs of its community, whatever those needs might be. While preparing for a CRA examination a few years ago, management noticed a troubling statistic. When compared to the demographics of the community, its lending to low and moderate income families was low. This trend was certainly not unique to Madison Square, but similar for other small local institutions. However, instead of giving up and pointing to the formidable competition from larger banks and mortgage companies,

management at Madison Square looked carefully at the needs of this group of borrowers and developed their own first time homebuyers program for lower income residents.

Madison Square's First Time Homebuyers program has gone through several iterations in the years since it was first introduced. These changes have enabled the institution to offer a product that is needed, but which is not readily available from other lenders, without compromising the safety and soundness of the loan portfolio. Since Madison Square is essentially a portfolio lender, management has a great deal of flexibility to develop products that respond to the needs of their specific market.

Madison Square worked closely with partners in the development of their program. For example, borrowers who need to borrow more than 80% of the appraised value of a home are required to obtain private mortgage insurance. Typically, a PMI company requires a borrower to contribute at least 3% of the purchase price for down payment on a loan. Madison Square, working closely with a local PMI company, designed a program that allows a borrower to use gift or grant money to provide down payment funds. Other features of the program include flexible underwriting, a below market interest rate and no points--features that make the product attractive and affordable for their lower income first time homebuyers but still profitable for the institution to originate.

Madison Square insists that borrowers in the first time homebuyers program be well prepared to become new homeowners. Counseling is a required component of the institution's first time homebuyer program. The institution refers potential borrowers

to a local non profit housing organization for comprehensive home buyer education and credit counseling prior to closing the loans. Although the institution will not waive the requirement for counseling, it is willing to accept other homebuyer counseling which may be more convenient for the borrowers due to location or class times.

While these are important parts of a first time homebuyer program, Madison Square quickly realized the low down payments and homeownership counseling were not enough to distinguish its program from others and might not be adding much value to the competitive first time homebuyers market. Maryland has very high settlement costs compared to most other states. Consequently, the cash needed to close is often a major hurdle for low and moderate income borrowers, even those taking advantage of low down payment programs offered by various lenders throughout the city. Madison Square developed a companion loan product for its first time homebuyers called the Settlement Cost Assistance Program. Using this personal, unsecured loan, qualified applicants can borrow up to \$4,000 toward the settlement expenses of buying their first home. The loan rate is the same rate as the mortgage rate and can be paid back over six years. Even with two payments, borrowers using this companion loan program often find that they are paying less for a mortgage than for their current rent.

In addition to offering a successful first time homebuyer mortgage loan product that works in Baltimore, Madison Square has attempted to assist its lower income prospective homeowners in other ways. Lending personnel at Madison Square noticed that many of the low and moderate income applicants were strapped with

very high automobile loan payments for older cars. After further investigation, they learned that the interest rates charged on the used car loans were exorbitant. The resulting high payments often made a lower income family's debt to income ratio unacceptable. As evidence of its desire to serve the credit needs of their community, Madison Square began refinancing used car loans at more

reasonable rates, freeing up more disposable income for many families.

David Wallace has served as President of Madison Square for nineteen years. He credits a hard-working, compassionate staff and an active, responsive Board of Directors for Madison Square's success with these programs. According to Mr. Wallace, "If a mutual institution is only offering the same products that every

bank in town is offering, then they are not fulfilling the obligations of their special charter." It is this philosophy that has enabled Madison Square to offer a successful first time homebuyer mortgage product, even in the face of stiff local competition ■

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*For more information, you may contact Lynn Bedard, OTS-Southeast, at (404) 888-8443.*

# HOPE

## *is Spreading, Nationally*

*by Gary Curley*

Operation HOPE, a non-profit investment banking organization based in Los Angeles, California is expanding its operations nationwide. John Bryant, who founded Operation HOPE following the civil unrest in Los Angeles in 1992, directs a growing organization that has become one of the nation's most energetic and positive proponents of untapped business opportunities and human resources in low income communities.

Since its inception, Operation HOPE has attracted over 50 FDIC insured financial institution partners, including Washington Mutual, Deutsche Bank, Bank of America, Wells Fargo, Hawthorne Savings and Union Bank of California. Working with its partners, Operation HOPE has facilitated more than \$50 million in commitments for loans for homeownership and small business operations. Perhaps the most striking indication of the spirit of trust, respect and dedication to underserved markets that Operation HOPE shares with its financial institution partners is the fact that it is authorized to operate three financial institution branch offices for three different financial institution partners. These Operation HOPE "Banking Centers" are located in Central Los Angeles (investment partner Hawthorne Savings), South East Los Angeles (investment partner Washington Mutual), and Watts/Willowbrook (investment partner Wells Fargo). These full service offices take deposits, make loans, and include ATMs.

These Banking Centers also offer a variety of "high-touch" services aimed at addressing community needs. Free educational seminars such as computer training, credit counseling and financial planning; and small business and

entrepreneurial training are offered and aggressively marketed. An extensive credit case management program is available for individuals with significant credit problems. In theory, no borrower is refused a loan. If they have poor credit histories or inadequate resources, Operation HOPE will work with them for as long as it takes to establish good credit standing and adequate resources. Matching grant down payment assistance programs are also available. About 10,000 households have taken advantage of Operation HOPE's educational outreach opportunities.

Operation HOPE first became known for its Bankers' Bus Tours. The first tour immediately following the unrest in 1992, was aimed at educating 30 local senior bank officials about the opportunities as well as the credit needs in South Central Los Angeles on the assumption that lenders won't lend in areas that they don't know. Fueled by the tremendous success of that first bus tour, subsequent annual bus tours through Oakland, East Los Angeles and South Central have attracted more than 1,000 bank CEOs, government officials (the FDIC Chairman, Comptroller of the Currency, OTS Director and the Secretary of Commerce among others) and community leaders.

One of Operation HOPE's more recent and very successful undertakings expands on its core commitment to financial and economic literacy training. The "Banking on the Future Program" leverages its financial institution partners' community commitment with their desire to develop future markets. "Banking on the Future" uses a network of volunteer Banker-Teachers (including OTS employees) to

*— continued on page 11*



# How To Pickle a Coin

## or

# Fun Money in Cyberspace

Who says financial literacy can't be fun? If you do, then you've never escaped from Knab. Or learned how to pickle a coin before it's minted. Or even become a virtual millionaire.

From lessons on the history of money to virtual investing, the World Wide Web (WWW) offers a wide-range of educational and entertaining economic and financial literacy sites for children and young adults. Many include interactive games, teacher lesson plans, parents pages, resource listings and links to related sites. The content is appropriate for the classroom, alternative educational settings or at home. There are no fees for using sites mentioned in this article; and, for the most part, they are free from advertisements and marketing pitches. And, you might just be surprised where you find some of the best material.

Let's start at the beginning. To understand money, it helps to know where it comes from, other than the tooth fairy, of course. Log on to *H.I.P. Pocket Change* part of the U.S. Mint's home page. An interactive time machine will take you and your children through the history of American coinage. There is an animated tour of the mint and a matching game to help kids recognize coins. The site features a teachers section with a library and lesson plans. It's fun, informative and definitely not bureaucratic.

[www.usmint.gov/kids/index.html](http://www.usmint.gov/kids/index.html)

*KidsBank.com* brought to you by Sovereign Bank, is a colorful, basic introduction to money and banking for children. Sovereign Bank, a federally chartered savings bank headquartered in Wyomissing, Pennsylvania,

developed *KidsBank.com* to provide an informative and fun place for children to go for answers to money-related questions. A cast of charming characters, including Dollar Bill and Interest Ray, walk kids through lessons on the importance of savings and banking. After the tour, kids can test their knowledge in the Game Room, use one of three interactive calculators that demonstrate the principles of saving, and post a message on Ask Mr. Money, a bulletin board dedicated to children's questions and answers regarding money. The site is not commercial and does not promote products or services.

[www.kidsbank.com](http://www.kidsbank.com)

If your children or students are having trouble counting money, there are several online games to help them hone their skills for the future when they will have to dig

for change for that latte every morning. At Capital Federal Savings Bank, a federally chartered thrift institution in Kansas, Milo the Moose leads the user through fun money games to start learning how to count and save. Play *Milo's Money Matters* and help Milo save \$10 by correctly counting the coins. The site also provides a quiz on money factoids and has links to educational sites and a kids web browser.

[www.capfed.com/6kids.html](http://www.capfed.com/6kids.html)

Other sites that help kids identify and count money: *MONEY Talk*, which also compares currency ([www.sys.virginia.edu/~wwwle/jun/module.html](http://www.sys.virginia.edu/~wwwle/jun/module.html)) ; *Money Flashcards* from A+ Math ([www.aplusmath.com/](http://www.aplusmath.com/)) ; and *Money Experience* ([www.edu4kids.com/money](http://www.edu4kids.com/money)) .

*FleetKids* is an educational web site designed for kids in grades K-

6. A series of challenging interactive games and activities teach kids financial planning, goal setting and good citizenship. **FleetKids** can be accessed from any computer and can be played at home or in the classroom. Children who attend a school that has enrolled in the program earn points for their school each time they use the site. Top-scoring schools win technology-based teaching tools, including computers and software. The site was developed by the parent company of Fleet Bank, F.S.B, a federal stock savings bank, in conjunction with Headbone Interactive. Fleet Bank is part of FleetBoston Financial.  
[www.fleetkids.com/fleet/home.b.html](http://www.fleetkids.com/fleet/home.b.html)

Do you ever wonder where your money goes? Literally, that is. At **Where's George, the Great American Dollar Bill Locator** your children or students can track dollar bills as they circulate around the world. The site is free except, of course, for the dollar. If you can ignore the ads, it could be great fun for everyone at home or at school.  
[www.wheresgeorge.com](http://www.wheresgeorge.com)

**Moneyopolis** is designed to teach sixth through eighth grade math skills in a personal financial planning context. Presented as a public service by Ernst & Young LLP, **Moneyopolis** the winning site takes kids through a series of problems dealing with earning, spending and saving money. Players win by achieving a savings goal and earning community service medals. The skills practiced in the game are based on the standards and objectives of the National Council

of Teachers of Mathematics (NCTM). It's fun and educational, and not just for kids.  
[www.moneyopolis.org/](http://www.moneyopolis.org/)

After you've graduated from **Moneyopolis** it's time to blast off into outer space, only to end up marooned on Knab. **Escape from Knab** was designed as a classroom-teaching tool. The player is trapped on the slimy planet until he can earn \$10,000 to buy his escape. Each section focuses on down-to-earth (no pun intended) lessons in getting a job, budgeting, spending and saving. Six-month lesson plans are included for teachers. The site is animated and amusing, while educational. There are no commercials on this site sponsored by Firststar Bank of Milwaukee; the site is aimed at high school students.  
[www.escapefromknab.com/](http://www.escapefromknab.com/)

Once back on terra firma, put your new skills to work and invest your virtual earnings. The **Stock Market Game**, sponsored by the Securities Industry Foundation for Economic Education, is an educational program that stimulates learning about economics, finance, and the American economic system through a 10-week simulation of Wall Street trading. Players invest a hypothetical \$100,000 in the stock market. Although primarily used in 4th - 12th grade classrooms during fall and spring semesters, the game is available to any potential investors wanting to hone their skills before jumping into the market. **SMG** is the only market simulation endorsed by the National Council on Economic Education and is correlated to voluntary national educational

standards in math, business, and economic education. One wonders how Chairman Greenspan feels about this program.  
[www.smg2000.org/](http://www.smg2000.org/)

Saving can lead to investing even for young kids and **The Young Investors Website** teaches the fundamentals of money and investing in an interactive environment. The website was developed by Liberty Financial Companies, a Boston-based asset management company, which also offers the Liberty Financial Young Investor Program. In addition to games and puzzles (a favorite was **Money-Stration**), the site provides an investment library, a kids 4 kids forum and a college cost calculator. While there are paths that take the user to commercial areas, the content does not come on as a sales pitch.  
[www.younginvestor.com/pick.shtml](http://www.younginvestor.com/pick.shtml)

Welcome to **SmartStart**, from the Canadian Imperial Bank of Commerce, a site all about money. There's something for every age group, including The Allowance Room and Money Machine and the Great Treasure Hunt.  
[www.cibc.com/smartstart](http://www.cibc.com/smartstart)

The Department of Treasury weighs in with **Treasury's Page for Kids** ([www.treas.gov/kids](http://www.treas.gov/kids)) with links to the kids pages of various Treasury Bureaus. The Customs K9 of the Month is worth a quick visit. **The Learning Vault** is an informative offering for teachers, parents, teens or young adults interested in money, the economy and the workings of the Treasury.  
([www.ustreas.gov/opc/](http://www.ustreas.gov/opc/)) . At the **Savings Bond Kids Page** ([www.publicdebt.treas.gov/sav/](http://www.publicdebt.treas.gov/sav/)



[savkids.htm](#)) we learn: if your dog eats your savings bond, it (the bond) can be replaced. If your dog eats your homework, you may be in trouble!

Looking to take a ride, check out **Taxi Interactive**, the IRS interactive site for understanding taxes. Payday and the Real Planet acquaint teens getting their first job or starting a business with the process of filing a W-4, tax withholding, paying taxes, and even how to file electronically. A teachers tool kit is available and a tax term glossary is provided. While the site is aimed at teens, it would be good for others starting their first job.

[www.irs.ustreas.gov/prod/taxi/index.html](http://www.irs.ustreas.gov/prod/taxi/index.html)

Do you know a youngster with the potential of being the next Bill Gates? Well, start her off right with **STAWRS Kids**. The Simplified Tax and Wage Reporting System (STARWS) is a joint effort by the Department of Labor, the Internal Revenue Service, the Social Security Administration and the Small Business Administration. It profiles three businesses a kid could start and includes age appropriate information about business taxes.

[www.tax.gov/kids/home.htm](http://www.tax.gov/kids/home.htm)

The U.S. Small Business Administration has just launched **Discover Bu\$iness** as part of its Online Women's Business Center. The site is aimed at school-aged girls and young women interested in starting a business or who may already have their own business. **The Discover Bu\$iness! Game** allows the user to start her own small business with \$100,000 in virtual venture capital. The player

evaluates financial performance based on her business plan decisions and actual performance. The site includes online basics in economics, marketing, financial statements and other areas related to starting and growing a business. The site was developed by the Center for Women Entrepreneurs at Columbia College, South Carolina, and Syneractive.

[www.discoverbusiness.com/](http://www.discoverbusiness.com/) or [www.onlinewbc.org/docs/whats\\_new/YouthEnt.html](http://www.onlinewbc.org/docs/whats_new/YouthEnt.html)

The Social Security Administration has a kids page of its own, **Youth Link. Kid Stuff**, for 6-12 year olds, is a series of colorful animals describing how social security works; if your computer has a sound card the animals can talk to you. Hot Questions for Cool Teens is for high school students and there are also sections for parents and teachers.

[www.ssa.gov/kids/index.htm](http://www.ssa.gov/kids/index.htm)

Take a tour of the FDIC with Carmen Cents, featured in the **Learning Bank, the Educational Source for Students, Parents and Teachers**. The site is text based and describes the history and purpose of the FDIC, a history of the American banking system and basic financial services. It includes pictures and bios on the FDIC Board of Directors, including Ellen Seidman, Director of OTS.

[www.fdic.gov/about/learn/learning/index.html](http://www.fdic.gov/about/learn/learning/index.html)

**ThinkQuest** is a great site. Do a library search for money and find links to money games and interactive programs designed by students and teachers including the **ThinkQuest Stock Game**,

**Econopolis, Moneypalooza** and **Investing for Kids**. There are many others worth checking out as well. [www.thinkquest.org/](http://www.thinkquest.org/)

The Federal Reserve Bank offers online economic education resources on the websites of most of its branches, though most of the content is not interactive. A variety of publications, including a series of comic books on economic themes, can be ordered. Economic Treasures, part of the Federal Reserve Bank of San Francisco's FEDWEST Gateway, offers a **Treasure Hunt** with the great economists. Download **The Muffin Market**, a simulation of supply and demand, which is part of a larger curriculum package. ([www.frbsf.org/econedu/index.html](http://www.frbsf.org/econedu/index.html)) The Federal Reserve of New York's Econ Explorer Club includes five classroom and community activities related to important economic concepts aimed at 5th and 6th grade students. The St. Louis Fed's site tests your money knowledge with **Money Challenge** ([www.stls.frb.org/education/index.html](http://www.stls.frb.org/education/index.html)) .

## Additional Online Financial Literacy Resources For Kids and Parents

**Jumpstart Coalition**, a Financial Literacy Coalition. Links to coalition member web and education material, some of which is free.

[www.jumpstartcoalition.org/](http://www.jumpstartcoalition.org/)

**Young Americans Bank**, the world's first and only state-chartered, FDIC insured bank

exclusively for young people. Sponsored by the Young Americans Bank and Educational Foundation.

[www.theyoungamericans.org/](http://www.theyoungamericans.org/)

**Save for America**, the U.S. Department of Education approved Bank-At-School program. Students open savings accounts at school and make deposits via the Internet to a bank of their choice. The program is sponsored by banks and run by adult volunteers.

[www.saveforamerica.org/main2.html](http://www.saveforamerica.org/main2.html)

**On the Money Planning Game and On the Money Budget Game** in the Consumer Connection section of the American Bankers Association Education Foundation. The interactive financial planning games are designed for teens and adults; it helps to have a 17-inch monitor. There is also a **Kidstuff** page.

[www.aba.com/aba/ConsumerConnection/CNC\\_pfin.htm](http://www.aba.com/aba/ConsumerConnection/CNC_pfin.htm)

**Kids' Money**, a site listing resources, (some for sale) dealing with kids and money.

[www.kidsmoney.org](http://www.kidsmoney.org)

**SaveLab**, the Family Saving Center from Merrill Lynch, Pierce, Fenner and Smith, Inc., with Savin' Dave and the Compounders teaches budgeting and savings skills. Aimed at kids, parents and teachers.

[www.plan.ml.com/education/familysavings/index.html](http://www.plan.ml.com/education/familysavings/index.html)

**The Mint Home Page**, not the US Mint. Integrated web site for middle and high school students,

parents and teachers.

[www.themint.org](http://www.themint.org)

**Savvy Student**, financial information for late teen and college age students.

[www.savvystudent.com/](http://www.savvystudent.com/)

**Money Matters**, from the Canadian Broadcasting Corporation. [www.cbc4kids.ca/](http://www.cbc4kids.ca/)

**Big Money Adventure**, from A.G. Edwards is for the younger crowd.

<http://agedwards.com/bma/index.5html>

**The Money Game World School Investment Challenge** for schools only. [www.moneygame.com/](http://www.moneygame.com/)

**Gazzillionaire**, a cross between monopoly in outer space and Wall Street in Wonderland offers the thrill of Intergalactic wheeling and dealing. A limited shareware version can be downloaded but I might try this one at home. Full version for sale from LavaMind as are Zapitalism, Profitania.

[www.lavamind.com/order.html](http://www.lavamind.com/order.html)

**Lemonade Stand** a profit game.

[www.littlejason.com/lemonade/index.html](http://www.littlejason.com/lemonade/index.html)

**AmosWeb** devoted to all things economic, including tests, statistics, instructional materials. Teens and adults will enjoy fresh approach. [www.amosweb.com](http://www.amosweb.com)

**AskEric**, a free, searchable version of the ERIC educational database. [ericir.syr.edu/Eric/Economics/lessonplans/index.html](http://ericir.syr.edu/Eric/Economics/lessonplans/index.html)

Economics lesson plans are located at:

[ericir.syr.edu/Virtual/Lessons/Social\\_St/Economics/index.html](http://ericir.syr.edu/Virtual/Lessons/Social_St/Economics/index.html)

## For the really brave:

**The National Budget Simulation** part of UC Berkeley's Center for Community Economic Research. Works on the 1995 US budget.

[garnet.berkeley.edu:3333/budget/budget.html](http://garnet.berkeley.edu:3333/budget/budget.html)

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*This article was researched and authored by Marie Friederichs, OTS-Midwest. An electronic version of the article is available with hyperlinks to each web site. Marie can be reached at (206) 553-5469.*

*Disclaimer: The Office of Thrift Supervision does not endorse nor does it insure the accuracy, completeness or usefulness of the content of the sites listed in this document. Nor does it endorse any commercial product, process or services or its producers or providers. The views and opinions contained in or linked to by any of the referenced documents do not necessarily state or reflect those of the Office of Thrift Supervision or the United States Government. Please note that the WWW is not static. Site URLs change, web pages disappear and others are not updated regularly.*

– continued from page 6

teach primarily inner-city youth about basic banking products, and the importance of good credit and investment in their lives. Many of the students do not have a financial institution in their neighborhoods or anyone in their family with a banking relationship. The program, which typically involves three 45-minute sessions in the students' school classrooms, has been provided to about 30,000 children in grades 6 through 12.

The program is now operational in 12 cities around the United States, including New York, in partnership with Deutsche Bank, the Federal Reserve Bank of New York, New York State Banking, the Office of Thrift Supervision and the New York School System. The program will be operational in 30 cities by yearend 2000. The goal is to teach 100,000 students nationwide this year. Fortune magazine is a national sponsor for "Banking on the Future".

"Banking on the Future" is a cornerstone of Operation HOPE's recent expansion into North California. Financial institution sponsors/volunteers for implementation of the program in San Francisco, Oakland, San Mateo, and East Palo Alto have been obtained, thanks in part to support from The United Way.

In looking to the future, Operation HOPE has established Corporate Councils of CEOs in Northern and Southern California to address issues important to the vitality of all communities and especially emerging markets. The objective of the Councils is to make a difference, however great or small, in such important areas as the digital divide and the growing gap in wealth distribution ■

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*Operation HOPE maintains an innovative Internet website at [www.operationhope.org](http://www.operationhope.org) and can be reached by telephone at (213) 891-2900. For more information, contact Gary Curley, Managing Director, Operation HOPE Northern California at (415) 772-7305, or you may contact Jim Woods, OTS-West, at (415) 616-1551.*

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## State Low Income Housing Tax Credits: An Overview

*By Charles L. Edson, Nixon Peabody LLP*

Nine states now have their own low income housing tax credit program designed to work in tandem with the federal credit. California and Missouri were pioneers in that regard, followed by Arkansas, Florida, Hawaii, North Carolina, Utah, Virginia and, most recently, Massachusetts. (Louisiana had a tax credit program that expired in 1993).

Most states limit the amount of their credit to a percentage of the federal credit. For example, the Arkansas credit cap equals 20% of the federal credit but cannot exceed \$250,000 per year. In Massachusetts, whose credit becomes effective on January 1, 2001, the state credit is one-half of the state's federal credit, or \$4 million, whichever is greater. Utah limits its credit to 12.5 cents per resident of the state, or one-tenth of the amount of federal credit.

Half of the states have borrowed the 10-year credit period from the federal government. This is the case in Arkansas, Hawaii, Missouri, and Utah. However, California limits its credit to four years and Florida, Massachusetts, and Virginia have a five-year limitation period.

### Amount of Credit

Generally the state statutes are flexible in the amount of credit awarded to the owner. Massachusetts for example, authorizes the credit allocating agency - the Department of Housing and Community Development - to allocate the credit in accordance with the standards and requirements as set forth in Section 42 [of the federal tax code], provided that the combined federal and state credit shall be the least amount necessary to ensure financial feasibility. Utah provides that the credit shall be an amount equal to the amount of the federal credit multiplied by the percentage specified in the allocation certificate issued by the agency.

California, however, has a more rigid formula. In the first three years of the credit period the owner receives an amount equal to the 9% credit in the case of new non-federally subsidized projects. In the fourth year the owner receives a credit equal to 30% minus the sum of the first three years' credit. Thus, if the owner received 25.5% of aggregate federal credit in the first three years, it would receive 4.5% in the last year. For federally subsidized or existing projects, the owner receives the federal credit amount for the first three years. During the fourth year the

owner receives an amount equal to 13% minus the sum of the percentages of the first three years' credit. Thus, assuming an aggregate federal credit of 11% of the first three years, the owner would receive 2% in year four.

### State Requirements

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Some states impose additional requirements beyond those contained in Section 42. For example, California requires a 30-year compliance period instead of the 15-year period with the right of first refusal contained in the federal program. California adopted the federal preferences for projects that serve the lowest income tenants for the longest period, but has added other preference criteria such as whether the project contains units for large families, provides single room occupancy for very low income tenants, or helps projects that were formerly federally subsidized that would go to market rate absent assistance through the tax credit and other subsidies. Massachusetts adopts the federal criteria and this seems to be the general trend.

### Special Allocations and Reciprocity

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A key question concerning the state credit is whether it can be allocated separately from the federal credits. This is important concerning the marketing of partnership interests in the project. If the credit cannot be separated, the project would realistically only be marketable in the state granting the credit. However, if there could be special allocations of state credit separable from the federal, there would be a nationwide market for the federal credit that the project carries. At this time, Arkansas and Missouri allow the separation and the Hawaii Department of Revenue is considering the issue.

No states have reciprocity with other states concerning the use of the credit. If state credits become widespread, they

certainly would become more useful under reciprocal arrangement whereby, for example, a California investor could take advantage of the credit allocated by Missouri and any Missouri taxpayer could utilize the California credit.

Indeed, some observers have noted that without widespread reciprocity or separate allocations, the tax credit could be badly fragmented, an undesirable result.

### State Historic Credits

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Fifteen states have multifamily historic credits. They include Colorado, Connecticut, Indiana, Maryland, Michigan, Missouri, New Mexico, North Carolina, Rhode Island, Tennessee, Utah, Vermont, Virginia, West Virginia and Wisconsin. Most states base their credit on a percentage of the expenditures for the historic rehabilitation. Connecticut, for example, permits a 30% credit based on the actual qualified rehabilitation expenditures. New Mexico has a 50% state historic credit, but the amount of the credit cannot exceed \$25,000. Most of the other states have either a 10% or 20% credit.

No states at this time have a state allocation separable from federal credits. However, Maryland and Virginia have entered into a reciprocity agreement concerning the state historic credits beginning in 2001. Hopefully, other states will emulate this useful practice.

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*Charles L. Edson is a partner in the Washington, DC office of the law firm of Nixon Peabody LLP. This article was prepared for a presentation on March 9, 2000 at the 2000 Annual Meeting of the National Housing & Rehabilitation Association. Edson may be reached at 202-973-7788 or by email: cedson@nixonpeabody.com.*

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# EIGHT TRIBAL-BASED HOUSING PROJECTS

## Pre-Approved For Loan Guarantees Under HUD's Title VI Program

Eight Native American tribes have been given "Preliminary Letters of Acceptance" by the Department of Housing and Urban Development (HUD) to participate in the Title VI program of the Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA). The pre-approval basically means that the proposed project is an eligible affordable housing activity that meets regulatory and statutory guidelines, and is determined to be in compliance with the goals and objectives under NAHASDA.

Specifically, the tribes and the lenders with whom they are working are seeking loan guarantees under the Title VI program, which authorizes HUD to guarantee up to \$45 million in notes or other obligations made by financial institutions to federally recognized Indian tribes or Tribally Designated Housing Entities (TDHEs) for eligible housing activities. The Title VI program allows TDHEs to borrow up to five times their current Indian Housing Block Grants (IHBC) amount. The IHBC funds are pledged as collateral

for the HUD loan guarantee. Repayment of loans made by a private-sector lender are guaranteed by HUD to 95 percent of the outstanding loan principal plus accrued interest. The Title VI program is designed to boost access to affordable housing, private capital and economic growth on tribal lands, according to Robert Knecht, Acting Director, Office of Loan Guarantee, Denver Office of Native American Programs, HUD.

### Eligible affordable housing activities include:

1. Indian Housing Assistance--modernization and operating assistance of Indian Housing developed or operated under the U.S. Housing Act of 1937.
2. Housing Development--acquisition, new construction, rehabilitation, site improvement and utility development financing, administration and planning.
3. Housing Services--housing counseling, self sufficiency services and energy audits.
4. Housing Management Services--loan processing assistance, inspections and tenant elections.
5. Crime Prevention and Safety Activities including law enforcement.
6. Model activities approved by the Deputy Assistant Secretary.

As of May 1, 2000 the following proposed projects have been pre-approved by HUD under the Title VI program:

- Asa'carsqarmuit, AK \$1,500,000  
Infrastructure/20 homeownership units
- Catawba, SC \$5,200,000  
120 rental and homeownership units
- Lac Coutre Oreilles, WI \$1,000,000  
40 rental units
- Tulalip, WA \$3,500,000  
28 rental homeownership units
- Northwest Inupiat, AK \$14,600,000  
Infrastructure and 20 homeownership units
- Northern Arapaho, WY \$265,000  
Low Income Tax Credit project, water and sewer lines
- Pojoaque, NM \$850,000  
Infrastructure and 30-40 single homeownership development

- Quinault, WA \$7,200,000  
38 Single family units and an Assisted Living Center

### Who Is Eligible

To be eligible for a Title VI loan guarantee, a borrower must:

- Be a federally recognized Indian tribe or a TDHE approved to receive IHBC funds.
- Qualify as having "experience with complex financial transactions." New IHBC recipients who wish to participate in the program must have certain financial management skills assessed by IHA Management Systems Inc., the Phoenix-based technical assistance provider. Contact Chuck Merritt (602) 482-0225, x225 or x226.
- Certify that financing is otherwise unobtainable without the Title VI loan guarantee.
- Have tribal authorization to issue or undertake financial obligations.
- Be capable of receiving the loan without harming the borrower's ability to use IHBC funds to operate and maintain the rental housing development under the U.S. Housing Act of 1937.
- Pledge all current and future IHBC grants as collateral for repayment of the loan.

### HUD Aims to Respond Within 30 days.

HUD's National Office of Native American Programs (NONAP) says it will try to respond to loan guarantee applications within 30 days of receipt from the lender. The application package must include a risk analysis and details about the repayment period (not to exceed 20 years) and interest rate negotiated with the borrower. It also must contain a project description of all the activities that will be carried out with the guaranteed funds. The description must include:

- Location of the housing activities.
- The land status (trust or fee land).
- The number and eligibility of tribal members and families to be served. Income categories are as follows: (1) number of families at or below the low-income limit; (2) number of families between 80 -100% of the median income limits who fall within the 10% of IHBC

limitation; (3) number of families between 80 - 100% of the median income limits who will exceed the 10% IHBG limitation; and (4) number of families above the 100% limitation.

*For more information about the Title VI loan guarantee demonstration program, contact: Christine Manion, Title VI specialist, Office of Loan Guarantee, Department of Housing and Urban Development, 1999 Broadway, Suite 3390, Box 90, Denver, CO 80202-3390; (303) 675-1690 x3321.*

*The information in this article has been updated since it first appeared in Native American Housing News. The*

*original article, Title VI Loan Guarantee Program, was written by Elizabeth Lohr, National American Indian Housing Council, (202) 789-1754.*

**NOTE:** The OTS-sponsored Native American Housing and Economic Development Conference, July 24 and 25, 2000 at the Mashantucket Pequot – Foxwoods Resort and Casino Conference Center will discuss, in detail, the Title VI program and its benefits. Please visit the website of the OTS Community Affairs program <http://www.ots.treas.gov/community.html> for details on the conference or call Francis Baffour at (201) 413-7343. (See below)

## **Native American Visions 2000**

### ***Economic and Housing Development Conference***

*sponsored by:*

The Office of Thrift Supervision and United South and Eastern Tribes, Inc. (USET);  
HUD, Native American Indian Housing Council, Federal Housing Finance Board,  
Federal Reserve, Office of the Comptroller of the Currency,  
and the Federal Deposit Insurance Corporation

**July 24-25, 2000**  
**At the Mashantucket Pequot**  
**Foxwoods Conference Center, Connecticut**

The conference will provide information on:

- ◆ The Administration's One Stop Mortgage Centers Initiative
- ◆ Congressional Report on Native American Lending Study/Action Plan workshops
- ◆ Best practices for mortgage lending in Native American Country
- ◆ USDA and Rural Housing Services Housing and Development Programs for Tribal Homelands
- ◆ Starting Native American-owned financial institutions
- ◆ Steps to forming a Community Development Corporation (non-profit) and best practices for operating a successful CDC
- ◆ Homeownership counseling, financial literacy and credit repair
- ◆ Microenterprise lending and SBA programs for Native Americans
- ◆ Individual Development Accounts on Tribal Homelands
- ◆ Community Development Financial Institutions (CDFIs)
- ◆ Accessing capital markets by Native American entities
- ◆ CRA - Utilizing CRA effectively on Tribal Homelands

***For additional information, please contact:***

Francis Baffour	(201) 413-7343
Wendy Pelle Bear	(201) 413-7509
Wanda Janes	(615) 872-7900



## Upcoming Events and Training Opportunities . . .

**June 19-21:** Washington, DC. The Federal Deposit Insurance Corporation (FDIC) and Bank Administration (BAI) are co-sponsoring the *Community Development Lending and CRA Strategies for Community Banks* conference at the Marriott Crystal Gateway, in Arlington, VA. This year's conference will focus on the unique opportunities and challenges faced by community banks in this new millennium including topics such as sub-prime and predatory lending, the impact of the Gramm-Leach-Bliley Act on financial institutions, and the role that faith-based partnerships play in neighborhood revitalization.

Highlights of the BAI/FDIC conference will include keynote addresses by FDIC's Chairman, The Honorable Donna Tanoue, Reverend Floyd Flake, and Arthur P. Ziegler, Jr. of Pittsburgh, Pennsylvania. Mr. Ziegler is known for his impact on the City of Pittsburgh and the City's commitment to revitalization.

For additional information, please contact: BAI Customer Service at 800-224-9889 or 312-683-2464 or Elaine D. Drapeau, FDIC Community Affairs Specialist, 202-942-3270, email: [edrapeau@fdic.gov](mailto:edrapeau@fdic.gov)

**June 13-14:** Washington, DC. *Hope VI and Mixed-Finance Transactions: Reconciling the Financing Tax and Regulatory Rules*, is co-sponsored by The Institute for Professional and Executive Development, Inc. and Housing and Development Reporter. Registration information can be obtained by calling (800) 473-3293 or (202) 331-9230.

**June 21:** Dallas, TX. OTS and the Rural Home Loan Partnership (RHLP) will co-sponsor a workshop, *Bridging the Affordability Gap*. The workshop will explain how RHS' leveraged loan program and other subsidy funding sources can help open the door to affordable homeownership for low and moderate income families in rural Texas, Oklahoma and Louisiana. For more information, you may call Roberta Youmans, Federal Housing Finance Board, at 202-408-2581.

**June 22-23:** San Francisco, CA. The Urban Land Institute is sponsoring a workshop, *The Practice of Environmentally Sensitive Development*. For information, call 410-626-7500 or visit [www.uli.org](http://www.uli.org).

**June 26-30:** Oakland, CA. Neighborhood Reinvestment Corporation's *National Training Institute*. For information, call 800-438-5547 or visit [www.nw.org](http://www.nw.org).

**August 14-18:** Pittsburgh, PA. Neighborhood Reinvestment Corporation's *National Training Institute*. For information, call 800-438-5547 or visit [www.nw.org](http://www.nw.org).

**September 25-27:** The Washington State Housing Finance Commission and Washington State Department of Community, Trade and Economic Development, in partnership with the Washington Low Income Housing Network, will co-sponsor a 7th annual statewide conference on affordable housing - *Housing Washington 2000* - at the Spokane Center in Spokane, WA. For more information call 1-800-767-HOME (x733), e-mail [conference@bombar.com](mailto:conference@bombar.com) or visit the web at [www.wshfc.org/conf](http://www.wshfc.org/conf).

**October 5-6:** San Francisco, CA. National Association of Affordable Housing *Lenders's Fall Conference*. For additional information you may call (202) 293-9850.

**October 30-November 1:** Chicago, IL. *Community & Economic Development Conference 2000 - Seizing Opportunities in a Changing Financial Landscape* co-sponsored by the American Bankers Association and the Federal Reserve Banks of Chicago and St. Louis. For more information, call the ABA registration coordinator at (202) 663-5274 or visit their website at [www.aba.com](http://www.aba.com).

Future editions of the Community Liaison will highlight thrift industry community development activities and related issues and regulatory initiatives. We welcome your comments, as well as information about your institution's community development activities. Please contact your regional OTS Community Affairs Liaison, or write to us at our email address: [community@ots.treas.gov](mailto:community@ots.treas.gov). We look forward to hearing from you.